

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 2894-01
BILL NO.: HB 1272
SUBJECT: Taxation and Revenue-Income: Retirement Systems and Benefits-General
TYPE: Original
DATE: February 18, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$4,438,219)	(\$17,700,000)	(\$17,700,000)
Total Estimated Net Effect on <u>All</u> State Funds	(\$4,438,219)	(\$17,700,000)	(\$17,700,000)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 4 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction for any military annuities, pensions or retirement allowances. The bill also amends the pension exemption, excluding from the exemption any retirement benefits already subtracted from the taxpayers federal adjusted gross income pursuant to section 143.121, RSMo. This legislation will become effective January 1, 2001.

The number of taxpayers eligible for this subtraction is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources.

Oversight assumes the Department of Revenue would require 346 hours of overtime at a cost of \$10,404 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$2,815 for additional storage and fields to be captured.

Officials of the **Office of Administration (COA)** have deferred to the estimate provided by Oversight.

Based on information provided by the Office of the Actuary, **Oversight** has estimated the revenue impact of this proposal as a loss to General Revenue of \$17.7 million annually. There are approximately 33,586 military retirees in Missouri. Of the number, 30,145 received a payment for their pension. Pension payments for military retirees in Missouri totaled \$476,400,000. \$476,400,000 divided by 30,145 retirees equals an average annual pension of \$15,804. Subtracting the \$6,000 that is already exempt left a difference of \$9,804. Multiplying \$9,804 by the number of Missouri retirees (30,145) equals \$295,541,580. Using a marginal income tax rate of 6% would generate a loss of approximately \$17.7 million annually.

Oversight estimates a loss to the General Revenue Fund of \$4,425,000 for FY 2001 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2001. **Oversight** assumes 25% of Missouri taxpayers would adjust payments,

ASSUMPTION (continued)

however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of military retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

<u>Loss to General Revenue Fund</u>			
Deduction of Military Retirement	(\$4,425,000)	(\$17,700,000)	(\$17,700,000)

<u>Costs - Department of Revenue</u>			
Reprogramming costs	(\$13,219)	\$0	\$0

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$4,438,219)</u>	<u>(\$17,700,000)</u>	<u>(\$17,700,000)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2001 (6 Mo.)	FY 2002	FY 2003
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

Under current law, annuities, pensions, retirement allowances, and other retirement benefits provided to any person for service in the uniformed services of the United States are subject to a limited state income tax deduction of up to \$6,000 of the benefits paid based on income of the taxpayer. This bill will exempt from state income tax the total military pension benefits received, regardless of income or the amount. The bill will become effective January 1, 2001.

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DESCRIPTION

(Continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Office of the Actuary

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "Jarrett".

Jeanne Jarrett, CPA
Director
February 18, 2000